Bank Of Zambia

Bank of Zambia Monetary Policy Statement

JULY - DECEMBER 2011

Bank of Zambia

MISSION STATEMENT

The principal purpose of the Bank of Zambia is to "formulate and implement monetary and supervisory policies that achieve and maintain price stability and promote financial system stability in the Republic of Zambia".

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The main focus of monetary policy in the first half of 2011 was to achieve an end-year inflation target of 7%. In this regard, broad money (M3) was projected to grow by no more than 4.9% to K18,792 billion at the end of June 2011 from K17,917 billion at end-December 2010. Further, reserve money was projected to decline by 9.3% to K4,697 billion from K5,180.4 billion at end December 2010. However, rising production and transportation costs resulting from an increase in fuel prices, depreciation of the Kwacha against major traded currencies, and the liquidity overhang emanating from the financing of maize purchases in the second half of 2010 posed a threat to the attainment of the inflation target.

Against this background, the Bank of Zambia principally relied on Open Market Operations (OMO) to maintain reserve money within the programmed growth path. This was supported by the primary auction of Government securities and complemented by prudent fiscal management.

Consequently, the performance of monetary policy during the first half of 2011 was generally favourable. The annual inflation rate remained within single digits throughout the period, despite increasing from 7.9% in December 2010 to 9.0% in June 2011. Although broad money increased by 14% against a projected growth of 4.9%, reserve money declined by 8.0% against the projection of minus 9.3%. In terms of interest rates, the yield rates on government securities rose whilst commercial banks' interest rates declined. With regard to the capital market, it continued to post gains in the first half of 2011, with major indicators being in the positive territory.

These outcomes occurred against a background of supportive fiscal policy and robust external sector performance. Preliminary data indicate that the central Government budget recorded a deficit of K361.1 billion during the first half of 2011 against the programmed deficit of K1,712.9 billion mainly on account of strong tax revenues from mining companies. Preliminary data also indicate that Zambia continued to record strong external sector performance in the first half of 2011, evidenced by an overall merchandise trade surplus (c.i.f) of US $1,187.3 million.

Going forward, Zambia's economic outlook and prospects for the second half of 2011 into 2012 remain positive. This is underpinned by expected strengthening in the world economy and robust domestic performance driven by the agricultural, mining, construction and tourism sectors. Surging trade volumes and high commodity prices on the international markets are expected to enhance the external sector's performance and contribute to relative exchange rate stability. However, there are threats to this outlook which include: higher oil prices resulting from political conflict in Middle East and North Africa; contagion from the domestic debt crisis in the Euro area; and rising world food prices due to poor agricultural harvest in some parts of the world.

Given the developments in the first half and outlook in the second half of 2011, inflation is projected to decline slightly to 8.3% in December 2011 from 9.0% in June 2011. However, in order to achieve the end-year inflation target of 7%, the Bank of Zambia will continue to use indirect instruments of monetary policy to contain the annual growth in broad and reserve money to no more than 9.3% and -5.6%, respectively, for the remainder of 2011.

In the medium term, the guiding principles of monetary policy shall be guided by Government's broad macroeconomic objectives that are consistent with the Vision 2030. These include; end-year inflation targets of no more than 6.0% at end-December 2012 and no more than 5.0% at end-December 2013. Other targets include real GDP growth rates of at least 6.8% in 2011, 7.4% in 2012 and 7.8% in 2013; limiting domestic financing to no more than

1.3% of GDP in 2011, 1.2% in 2012 and 1.0% in 2013; and accumulating international reserves amounting to no less than 3.4 months of prospective imports in 2011, 3.7 months in 2012 and 4.1 months in 2013.

1.0 Introduction

This Monetary Policy Statement reviews the performance of monetary policy during the period January to June 2011 and outlines the objectives of monetary policy for the second half of the year. The Statement also discusses major challenges which may impact on the conduct of monetary policy during this period and further outlines policy actions that the Bank of Zambia may take to address the challenges. A summary of the principles that will guide the Bank of Zambia's monetary policy formulation and implementation over the second half of 2011 up to December 2013 are discussed in the final part of the Statement.

2.0 Targets and Challenges

In the first half of 2011, monetary policy was focused on achieving an end-year inflation target of 7%. In this regard, broad money was projected to grow by no more than 4.9% to K18,792 billion at the end of June from K17,917 billion at end-December 2010. Further, reserve money was projected to decline by 9.3% to K4,697 billion (see Table 1).

Table 1: Selected Monetary Indicators, 2009 – June 2011 (%change)

	2009	Jan - Jun 2010		Jul - Dec 2010		Jan - Jun 2011	
	Actual	Prog.	Actual	Prog.	Actual	Prog.	Actual
Overall Inflation	9.9	8.2	7.8	8.0	7.9	7.6	9.0
Non-food Inflation	11.8	10.0	11.8	12.2	11.3	10.7	12.3
Food Inflation	8.0	5.6	3.8	4.6	4.4	4.8	5.3
Reserve Money	16.8	5.5	1.2	4.0	18.2	-9.3	-8.0*
Broad Money	7.4	9.9	18.2	5.5	15.4	4.9	14.0*
Domestic Credit	-4.0	-	9.9	-	15.9	-	0.3*
Government	-17.1	-	32	-	29.7	-	-28.4*
Public Enterprises	42.5	-	34.2	-	7.1	-	
Private Sector Credit	-6.4	-	2.4	-		-	18.8*
Domestic Financing (% of GDP)	1.6	1.2	1.0	1.4	3.1	1.4	

Source: Central Statistical Office - The Monthly; and Bank of Zambia
- Indicates no target under the ECF Programme
* Preliminary figures

The Bank faced the following challenges in implementing monetary policy and achieving the inflation target during the first half of 2011:

- Upward adjustment of fuel prices by 13.2% on average in February 2011 following increases in global oil prices and a depreciation of the Kwacha exchange rate against the US Dollar; and
- Liquidity overhang arising from higher than programmed Government borrowing and spending, especially to finance maize purchases in the second half of 2010.

Thus, in implementing monetary policy within this context, the Bank stepped up OMO to maintain reserve money within the programmed growth path. This was supported by the primary auction of Government securities and complemented by prudent fiscal management.

Summary of Economic Developments, Jan – Jun 2011

Several indicators from the first half of the year point to a strong real GDP growth and a continued consolidation of macroeconomic stability in 2011. The indicators include:

- A bumper maize harvest recorded in the agricultural sector. This was estimated at 3,020,380 mt, 8.0% higher than last year's record output of 2,795,483 mt. Further, output increases were recorded for wheat (38.0%), tobacco (18%), cotton (68.0%), barley (715.2%), soya-beans (4.0%), and Irish potatoes (20.0%);
- An increase in copper and cobalt output by 5.5% and 8.5% to 414,981 mt and 4,352.7 mt, respectively;
- Strong external sector performance in the first half of 2011, evidenced by an overall merchandise trade surplus (c.i.f) of US $1,187.3 million, with merchandise export earnings growing by 7.5 % to US $4,317.3 million from US $3,998.3 million registered during the second half of 2010;
- All the monetary targets for June 2011 under the Extended Credit Facility (ECF) were met, with overall inflation falling well within single digits at 9.0%; and
- However, the instability in the Middle East and North Africa caused an increase in oil prices whilst the European domestic debt crisis presented challenges in the foreign exchange market, with exchange rate stability remaining a key concern.

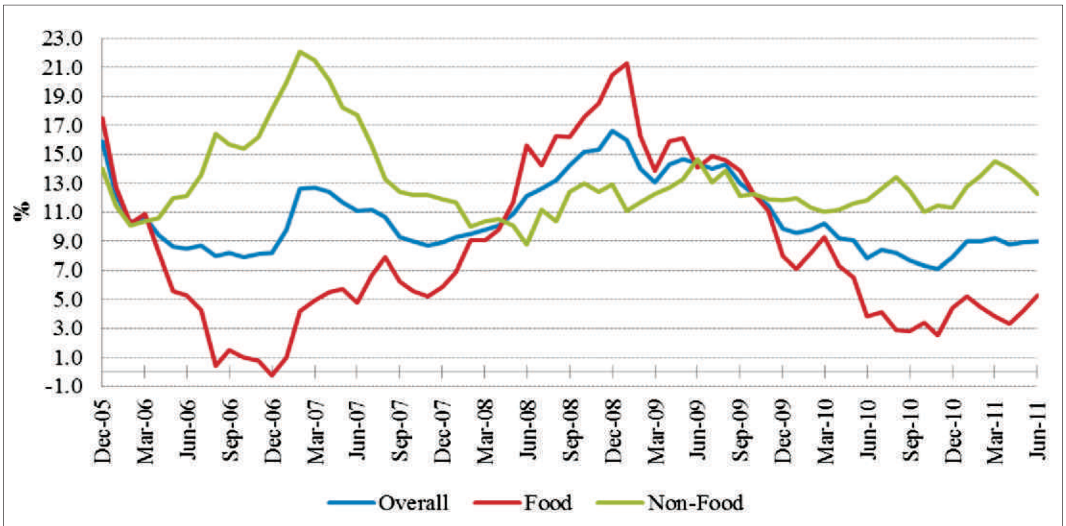
3.0 Assessment of Monetary Policy Outcome, January - June 2011

The performance of monetary policy during the first half of 2011 was generally favourable with continued moderate inflation. Annual inflation remained within single digits throughout the period, despite increasing from 7.9% in December 2010 to 9.0% in June 2011. Although Broad money (M3) increased by 14%, reserve money declined by 8.0%. In the foreign exchange market, the Kwacha depreciated against major trading partner currencies. With regard to interest rates, the yield rates on government securities rose whilst commercial banks' interest rates declined. The capital market also continued to post gains in the first half of 2011, with the major indicators in positive territory.

3.1 Overall Inflation

Annual overall inflation increased to 9.0% in June 2011 from 7.9% in December 2010. This outturn was on account of increases in both non-food and food inflation rates to 12.3% and 5.3% in June 2011 from 11.3% and 4.4% recorded in December 2010, respectively (see Chart 1 and Table 2). Non-food inflation accounted for 6.5 percentage points of the total 9.0% annual inflation outturn whilst the food inflation accounted for 2.5 percentage points of the overall inflation outturn.

Chart 1: Annual Inflation Rates, December 2005 to June 2011



Source: Bank of Zambia

3.1.1 Non-Food Inflation

The rise in annual non-food inflation to 12.3% in June 2011 from the 11.3% recorded in December 2010 reflected higher production costs induced by the increase in fuel prices during the first half of the year. Higher annual inflation rates were recorded in the following sub-groups: rent, fuel and lighting, 23.6% [16.4%][1]; recreation and education, 10.3% [3.5%]; clothing and footwear, 10.6% [10.0%]; and medical care, 7.9% [7.6%]. However, lower annual

[1]The figures in square brackets relate to the previous period

inflation rates were recorded on furniture and household goods, 12.0% [12.9%]; and other goods and services, 6.2% [7.6%].

3.1.2 Food Inflation

The increase in the annual food inflation rate to 5.3% in June 2011 from 4.4% in December 2010 was largely attributed to higher prices of selected vegetables, beef products, cooking oil, household sugar and other processed food products. The increase in the prices of selected vegetables was due to low seasonal supply while that of processed food products was explained by higher production costs induced by the upward adjustment in fuel pump prices during the review period. However, inflationary pressures from food items were moderated by high supply of maize grain and other crops on the market following the favourable crop harvest.

Table 2: Inflation Outturn, December 2005 – June 2011 (%)

Month	Monthly			Annual			Year-to-date		
	Overall	Food	Non-Food	Overall	Food	Non-Food	Overall	Food	Non-Food
Dec-05	1.0	2.4	-0.6	15.9	17.5	14.0	15.9	17.5	14.0
Mar-06	0.8	0.3	1.0	10.7	10.9	10.4	0.5	-1.2	2.2
Jun-06	0.8	0.1	1.5	8.5	5.3	12.1	1.9	-3.3	7.8
Sep-06	1.6	1.9	1.4	8.2	1.5	15.7	4.7	-4.0	14.8
Dec-06	1.2	1.3	1.0	8.2	-0.2	18.1	8.2	-0.2	18.1
Mar-07	0.8	1.3	0.4	12.7	4.9	21.5	4.6	4.1	5.1
Jun-07	0.2	-0.7	1.1	11.1	4.8	17.7	4.7	1.5	7.5
Sep-07	0.4	0.3	0.6	9.3	6.2	12.4	5.7	2.2	9.2
Dec-07	1.3	2.0	0.8	8.9	5.9	11.9	8.9	5.9	11.9
Mar-08	1.0	1.3	0.8	9.8	9.1	10.4	5.4	7.2	3.7
Jun-08	1.3	2.8	-0.1	12.1	15.6	8.8	7.6	10.9	4.5
Sep-08	1.3	0.2	2.3	14.2	16.2	12.4	10.9	12.1	9.7
Dec-08	2.4	3.7	1.2	16.6	20.5	12.9	16.6	20.5	12.9
Mar-09	0.3	-0.8	1.3	13.1	13.9	12.3	2.3	1.4	3.2
Jun-09	1.1	1.0	1.2	14.4	14.1	14.7	5.6	5.0	6.2
Sep-09	0.1	-0.5	0.7	13.0	13.9	12.1	7.4	5.9	8.9
Dec-09	1.0	0.8	1.1	9.9	8.0	11.8	9.9	8.0	11.8
Jan-10	1.0	1.5	0.4	9.6	7.1	12.0	1.0	1.5	0.4
Feb-10	0.9	0.8	1.0	9.8	8.2	11.3	1.9	2.3	1.4
Mar-10	0.7	0.3	1.0	10.2	9.3	11.0	2.5	2.6	2.5
Apr-10	0.4	0.0	0.9	9.2	7.3	11.2	3.0	2.6	3.4
May-10	0.7	-0.1	1.4	9.1	6.5	11.6	3.7	2.5	4.8
Jun-10	-0.1	-1.6	1.3	7.8	3.8	11.8	3.6	0.8	6.2
Sep-10	-0.3	-0.6	-0.1	7.7	2.8	12.5	5.3	0.8	9.6
Dec-10	1.7	2.7	0.9	7.9	4.4	11.3	7.9	4.4	11.3
Jan-11	2.0	2.3	1.8	9.0	5.2	12.8	2.0	2.3	1.8
Feb-11	0.9	0.0	1.6	9.0	4.5	13.5	2.9	2.4	3.4
Mar-11	0.8	-0.4	1.9	9.2	3.8	14.5	3.8	2.0	5.4
Apr-11	0.0	-0.5	0.5	8.8	3.3	14.0	3.8	1.5	5.9
May-11	0.7	0.7	0.8	8.9	4.2	13.3	4.6	2.2	6.7
Jun-11	0.0	-0.5	0.4	9.0	5.3	12.3	4.6	1.7	7.2

Source: Central Statistical Office Bulletin - The Monthly; and Bank of Zambia

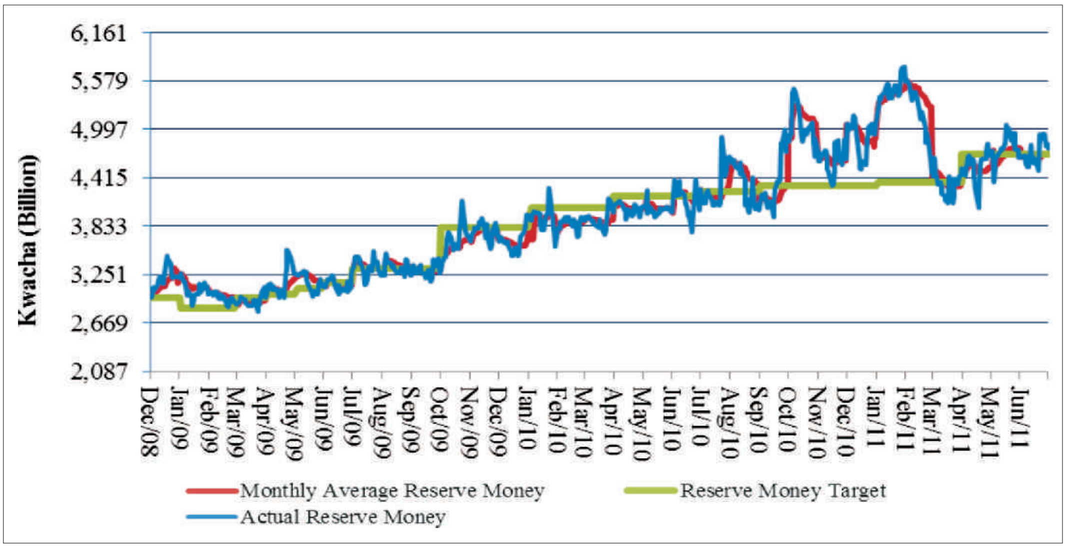
3.2 Monetary and Credit Developments

3.2.1 Reserve Money

At end-June 2011, reserve money declined by 8.0% to K4,766 billion from K5,180 billion at end-December 2010. Consequently, the average reserve money at K4,704.5 billion, was broadly in line with the end-June 2011 target of K4,697 billion.

The reduction in reserve money was due to Open Market Operations (OMO), net sales of government securities and net government revenues. Net sales of Government securities resulted in the withdrawal of K1,830.3 billion while Government revenues withdrew K46,507 billion. However, this was partially offset by net purchases of foreign exchange worth K45,070 billion and maturity of OMO funds worth K8,959 billion, which threatened the achievement of the reserve money target. In order to realign reserve money with the target, the Bank undertook contractionary operations through the purchase of K7,902.0 billion at the OMO window (see Chart 2).

Chart 2: Reserve Money, December 2008 – June 2011



Source: Bank of Zambia

3.2.2 Broad Money

Preliminary data show that broad money[2] (M3) growth increased to 14.0% in the first half of 2011 compared to a 15.4% decline in the second half of 2010. The outturn in M3 was driven by growth in Net Foreign Assets (NFA) of 38.2% during the review period and contributed 14.6 percentage points to M3 growth. In contrast, Net Domestic Assets (NDA) marginally declined by 0.1% contributing negative 0.6% to broad money growth. The reduction in NDA was due to a 28.4% reduction in net claims on central Government although private sector lending[3] increased by 18.8%. Excluding foreign currency deposits that grew by 38.3%, money supply increased by 15.7% in the period under review compared with 6.2% recorded in the second half of 2010.

On an annual basis, M3 growth increased to 26.1% in June 2011 (see Chart 3). This outturn was on account of the rise in both NFA and NDA. The NFA rose by 47.5%, reflecting an 8.8% rise in Gross International Reserves (GIR) and depreciation of the Kwacha exchange rate. Similarly, NDA increased by 12.1% due to a rise in net claims on Government.

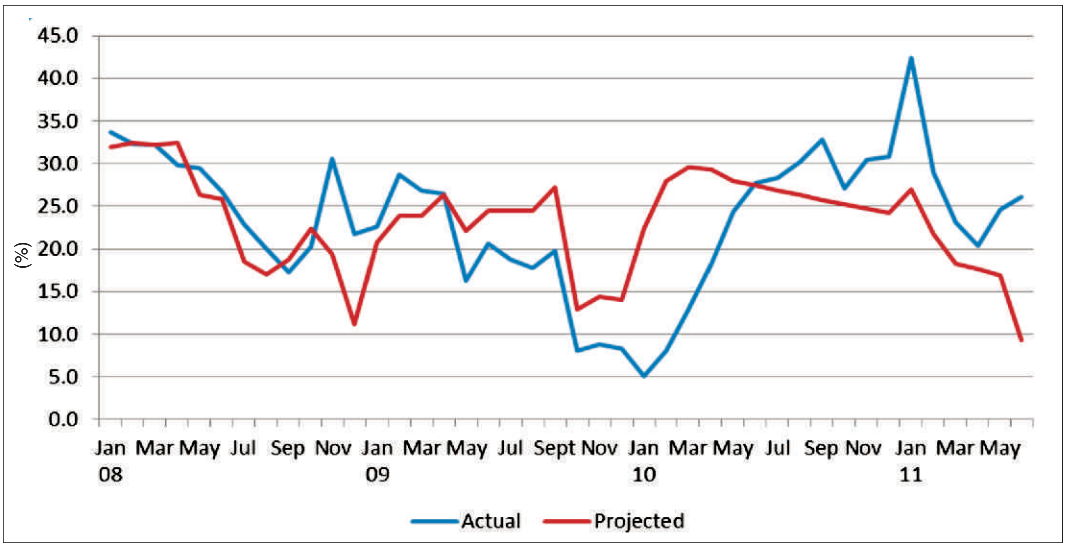
Table 3: Broad Money Developments (in K' billion unless otherwise stated), June 2009 – June 2011

Description	Jun 2009	Dec 2009	Jun 2010	Dec 2010	Jun 2011*
Broad Money (M3)	13,075.5	14,125.5	16,698.3	19,268.5	21,063.8
o/w Foreign Exchange Deposits	5,068.3	5,095.8	4,769.9	6,598.0	7,510.5
M3 (excl. Foreign Exchange Deposits)	8,007.3	9,029.7	11,928.4	12,670.3	13,553.3
6-Month Change in M3 (%)	0.2	8.0	18.2	15.4	14.0
6-Month Change in Foreign Exchange Deposits (%)	15.9	0.5	-6.4	38.3	11.1
6-Month Change in M3 (excl. Foreign Exchange Deposits) [%]	-7.7	12.8	32.1	6.2	15.7
Annual Change in M3 (%)	20.6	8.3	27.7	36.4	26.1
Annual Change in Foreign Exchange Deposits (%)	45.7	16.6	-5.9	29.5	57.1
Annual Change in M3 (excl. Foreign Exchange Deposits) [%]	8.8	4.1	49.0	40.3	13.6

Source: Bank of Zambia
* Estimate

[2]Defined to include foreign currency deposits
[3]Defined to include lending to public enterprises

Chart 3: Annual Broad Money Growth, January 2008 - June 2011



Source: Bank of Zambia

3.2.3 Domestic Credit

Domestic credit[4] grew by 0.3% during the first half of 2011 compared with 15.9% in the second half of 2010. This outturn was largely as a result of the contraction in net claims on Government by 28.4% compared to an increase of 29.7% in the previous period and contributed negative 11.1 percentage points to domestic credit. In contrast, credit to the private sector rose by 18.8% during the review period, up from 7.2% recorded in the second half of 2010, contributing 11.4 percentage points to domestic credit growth. Excluding foreign currency denominated loans which increased by 29.3%, domestic credit growth declined to by 7.5% from a 21.1% increase in the second half of 2010.

On an annual basis, domestic credit growth was 8.9%. This was due to the growth in private sector credit by 27.4% and contributed 13.9 percentage points to the annual growth in domestic credit. However, credit to the central Government declined by 20.6% in the review period, contributing negative 4 percentage points to the annual growth (see Table 4).

Table 4: Domestic Credit Developments (in K' billion unless otherwise stated), June 2009 – June 2011

Description	Jun 09	Dec 09	Jun 10	Dec 10	Jun 11
Domestic Credit (DC)	11,107.8	12,137.6	13,732.5	14,915.1	14,954.6
O/w Foreign Exchange Credit	2,909.9	2,956.4	3,182.2	3,134.4	4,051.8
DC (Excl. FX Credit)	8,197.9	9,181.2	10,550.3	11,780.7	10,902.8
6-Month Change in Domestic Credit	5.4	9.3	13.1	15.9	0.3
6-Month Change in Foreign Exchange Credit	-3.1	1.6	33.0	-1.5	29.3
6-Month Change in DC (Excl. Foreign Exchange Credit)	8.8	11.9	9.3	21.1	7.5
Annual Change in Domestic Credit	43.3	15.2	23.6	31.1	8.9
Annual Change in Foreign Exchange Credit	75.1	-1.5	9.4	23.0	27.4
Annual Change in DC (Excl. Foreign Exchange Credit)	89.9	21.9	28.7	33.2	3.3

Source: Bank of Zambia

On a sectoral basis, households (personal loans category) continued to account for the largest share of outstanding credit of 25.6% in May[5] 2011 compared to 26.8% in December 2010. The agricultural sector was second at 16.3% [17.6%], followed by manufacturing 12.7% [12.7%], wholesale and retail trade, 10.7% [10.8%], construction 6.4% [5.8%], transport and communications 6.1% [4.7%], and community, social and personal services 5.8% [3.7%] (see Appendix III, Table 5a).

3.2.4 Overnight Lending Facility

In the first half of 2011, demand for short-term relief funds remained strong, triggering increased activity on the overnight lending facility window. The Bank of Zambia lent out K1,621.3 billion cumulatively compared with K1,319.7 billion in the second half of 2010. These funds were advanced at rates ranging from 5.7% to 10.4%.

[4]comprehensively defined to include foreign currency loans
[5]Reported with a one month lag

3.3 Foreign Exchange Market

Developments in the domestic foreign exchange market continued to be guided by a combination of domestic and international factors. On the domestic front, supply of foreign exchange decreased but was broadly consistent with the previous period, underpinned by supply from the mining companies and flows from foreign financial firms. International events were marked by the Middle East and North Africa crisis, and lingering debt crisis in the euro zone. The latter induced bearish market sentiments, which escalated flight to safety with emerging market currencies being the most affected. Crude oil prices also increased sharply to above US$120 per barrel, reflecting the crisis in the Middle East and North Africa. Nonetheless, China's continued strong appetite for metal commodities helped fuel optimism, with the price of copper at the London Metal Exchange rising by 18.2% to an average of US$9,404.7 per metric ton.

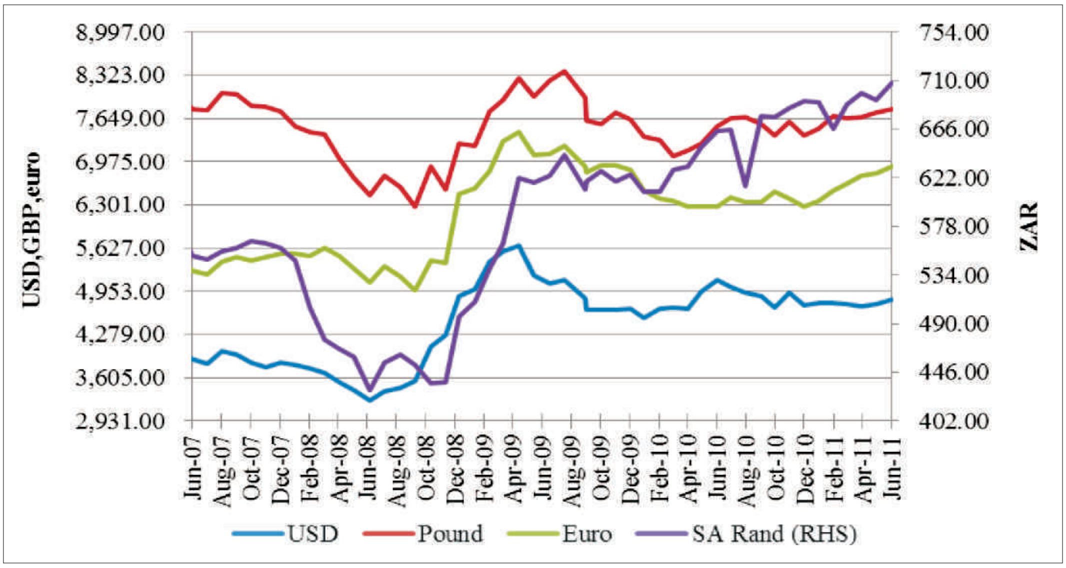
The supply of US Dollars to the domestic market for the first half of 2011 remained favourable, as measured by net inflows. Purchases of foreign exchange from the market by commercial banks stood at US$2,379.7 million compared with US$2,523.3 million purchased in the second half of 2010. On the demand side, banks sold US$2,296.0 million to the non-bank public against US$2,284.8 million recorded in the previous period. These transactions translated into a net supply of US$83.7 million onto the market. Supply of foreign exchange was driven largely by foreign financial firms and mining companies while the demand side was largely dominated by non-mining local corporate entities in the Agricultural, Transport and Communications, Energy, Construction and Manufacturing sectors and as well as foreign financial institutions.

Transactions in other currencies reflected a net outflow of foreign exchange with the South African rand the most dominant. Commercial banks sold ZAR1,505.3 million, which represented a reduction of ZAR180 million over the previous period's turnover. For the pound sterling, commercial banks made net sales of £9.4 million, up from £2.2 million recorded in the second half of 2010. Demand for the Euro was equally high despite the uncertainty in the Eurozone. Commercial banks made net sales of €2.3 million compared with a net purchase of €23.0 million recorded in the preceding period.

In the interbank market, total funds traded amounted to US$1,837.4 million against a turnover of US$2,231.6 million recorded in the second half of 2010. During the same period, the Bank of Zambia made net purchases of US$220.5 million from the market, mainly for bolstering Gross International Reserves.

Consequent to the above developments, the Kwacha depreciated against major trading partner currencies. Against the US Dollar and the Pound Sterling, the Kwacha posted a depreciation of 1.3% and 5.7% to an average of K4,791.15/US$ and K7,795.38/£ in June 2011 from the December 2010 average of K4,731.52/US$ and K7,378.95/£ respectively. Similarly, the Kwacha depreciated against the Euro and the South African Rand by 10.0% and 2.5% to an average of K6,903.80/€, and K708.27/ZAR from the previous period's closing average of K6,277.82/€ and K691.22/ZAR, respectively (see Chart 4).

Chart 4: Exchange Rates (Kwacha per foreign currency), June 2007 – June 2011



Source: Bank of Zambia

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3.4 International Trade Developments

Preliminary data indicate that Zambia continued to record strong external sector performance in the first half of 2011, evidenced by an overall merchandise trade surplus (c.i.f) of US $1,108.8 million. This was however, 13.7% lower than the US $1,284.2 million recorded during the second half of 2010 (see Appendix III, Table AIII.1). This outturn was explained by a higher increase in the merchandise import bill relative to merchandise export earnings.

The merchandise import bill grew by 15.3% to US $3,130.0 million from US $2,714.1 million registered during the second half of 2010. This was mainly attributed to higher import bills of fertiliser (66.6%), motor vehicles (55.5%), electrical machinery and equipment (52.4%), industrial boilers and equipment (47.1 %), paper and paper products (19.7%), iron and steel and items thereof (17.9%), chemicals (16.8%), plastic and rubber products (15.9%), and food items (9.0%) (see Appendix III, Table AIII.3).

Merchandise export earnings grew by 6.0% to US$4,238.8 million from US$3,998.3 million registered during the second half of 2010, reflecting an increase in both copper and cobalt export earnings. Copper export earnings, at US $3,429.5 million, were 7.5% higher than US $3,189.2 million recorded during the second half of 2010, largely on account of an increase in the average realised price by 15.8%. Supply deficits on the international market coupled with strong global growth performance in the first half of the year, explained the high copper prices. Export volumes, however, declined by 7.1%, mainly on account of lower production attributable to seasonal factors such as flooding in some mines. Similarly, cobalt export earnings grew by 6.5% to US$159.3 million from US$149.5 million driven by the 13.7% increase in export volumes (see Appendix III, Table AIII.2).

During the same period, non-traditional export (NTEs) earnings marginally declined to US $650.0 million from US $659.6 million recorded during the second half of 2010. A seasonal decline in the earnings from the export of cane sugar, burley tobacco, cotton lint, fresh fruits and vegetables and gemstones, explained this outturn.

3.5 Fiscal Developments

Preliminary data indicate that the central Government budget recorded a deficit of K361.1 billion during the first half of 2011, thus 78.9% lower than the programmed deficit of K1,712.9 billion (see Table AIII6 in the Appendix). This outturn was mainly due to strong tax revenues.

Total revenue and grants were K8,663.7 billion, 1.9% above the programmed amount of K8,500.6 billion due to higher than programmed tax revenues. Tax revenues at K8,079.9 billion were above target by K635.4 billion, mainly attributed to an increase in mining income tax and customs duty by 49.2% and 23.7%, respectively. However, non-tax revenues at K189.6 billion were 17.5% below the target of K229.7 billion, largely explained by lower than programmed recoveries from the fertiliser support programme. Similarly, total grants were K394.2 billion, 52.3% lower than the programmed level of K826.4 billion due to unfavourable performance of both direct budget support and project support.

Total expenditure at K10,122.0 billion, was marginally higher than the programmed level of K10,036.5 billion. This largely indicated higher expenditures on ordinary use of goods and services, ordinary grants and other payments as well as social benefits. These expenditures were above target by K619.2 billion, K568.5 billion and K152.6 billion, respectively. However, expenditure on non-financial assets at K1,337.0 billion was 49.5% lower than programmed, mainly due to lower than programmed spending on road infrastructure.

Total financing was K361.1 billion, comprising domestic borrowing of K371.8 billion and net foreign loans amortisation of K10.7 billion.

3.6 Money and Capital Markets Developments

3.6.1 Money Markets

3.6.1.1 Interbank market

The funds traded in the interbank money market increased to K14,407.0 billion from K11,732.2 billion reported in the second half of 2010 largely due to a continued concentration of liquidity among few banks. Consistent with strong demand for interbank loans and the skewed distribution of liquidity, the weighted average interbank rate rose to 2.8% from 2.5% recorded in the last half of 2010.

The turnover of funds traded in both Kwacha and foreign currency assets by non-resident participants in the interbank money market declined. Non-residents availed US$9.0 million to local banks compared with US$41.4 million in the preceding period, while borrowing from local banks was recorded at US$6,946.5 million against a high of US$6,347.8 million received in the last half of 2010. For the Kwacha assets, the turnover of funds placed by non-residents stood at K900.0 billion, representing a reduction from K1,472.3 billion in the previous period.

3.6.1.2 Government Securities Market

During the first half of 2011, the amount of Government securities offered to the market was increased in order to unwind accumulated excess liquidity driven by net maturity of OMO funds. The auction size for Treasury bills was increased to K5,700.0 billion from K3,170.0 billion recorded in the previous period. On a weekly basis, the amount offered translated into an average tender size of K219.2 billion, up from K116.2 billion supplied in the preceding period. Demand for Treasury bills was strong, underpinned by high levels of liquidity. Investors submitted bids totalling K6,901.6 billion, which represented an average weekly demand of K265.4 billion, 21% more than the amount offered. Total sales to the market were recorded at K3,896.1 billion against maturities of K2,447.3 billion, resulting in a surplus of K1,444.8 billion.

Similarly, for Government bonds the amount offered more than doubled to K1,700.0 billion from K810.0 billion in the previous review period. This represented a monthly tender size of K283.3 billion compared with K135.0 billion in the last half of 2010. Despite the increase in the offered amount, the response from the market was less encouraging, with investors' bid placements registered at K1,391.3 billion, which translated into an average subscription rate of 82%. Out of the bids received, K915.4 billion was sold to finance a maturity of K415.6 billion (see Table AIII.7).

3.6.1.3 Stock of Government Securities

The surplus realised from auctions bolstered the total amount of Treasury bills in circulation by 36.5% to K6,152 billion. Net sales of Government bonds stood at K499.8 billion bringing the total amount in circulation to K5,957.4 billion, up by 9.5% relative to the previous period's closing position of K5,439.4 billion.

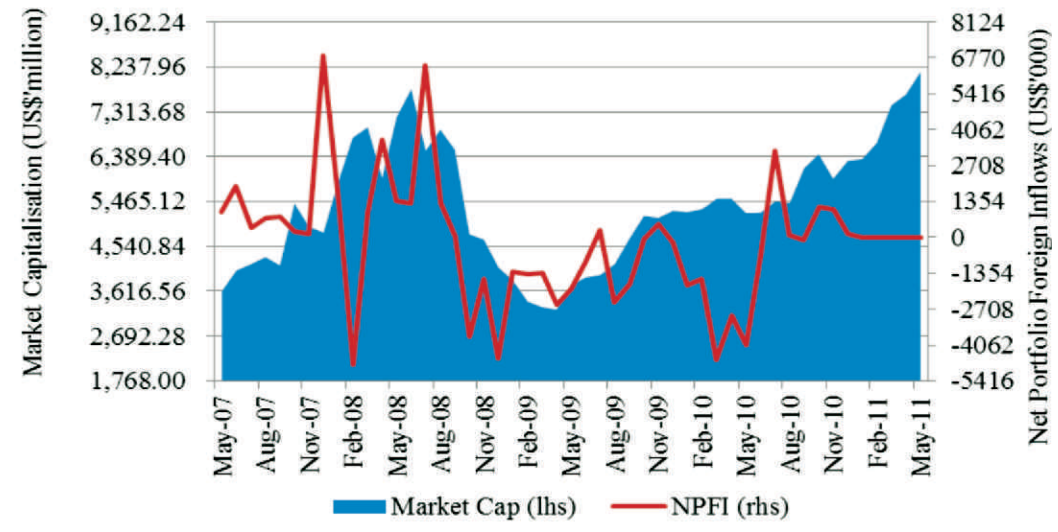
In view of the foregoing, the total amount of Government securities in circulation rose by 21.8% to K12,101.3 billion from K9,941.0 billion recorded at end-December 2010. Commercial banks accounted for the largest proportion, with a holding of K6,614.7 billion (53.2%). The non-bank public accounted for K3,897.4 billion (32.1%) of the total Treasury bills outstanding. The Bank of Zambia accounted for K1,639.4 billion, which was 14.7% of the total outstanding securities.

Non-resident investment in Government securities remained strong, underpinned by broad based strengthening of yield rates. Total foreign holdings of Government securities grew by 50.3% to K939.8 billion from K625.4 billion. This position was 7.8% of the total outstanding Government securities. Treasury bills accounted for 80% of the total foreign investment in Government securities at K752.3 billion.

3.6.2 Capital Markets

The capital market continued to post gains in the first half of 2011, with the major indicators in the positive territory. Market capitalisation of the Lusaka Stock Exchange (LuSE) rose to K39,540.1 billion (equivalent of US$8,028.0 million), 27.9% up from an end-December 2010 position of K30,911.6 billion (US$6,302.0 million). This was on account of strong capital gains reflected by increases in share prices for most listed stocks. In particular, BP, Pamodzi, African Explosives and Bata were the leaders. The BP share price rose by more than 200% to K1,135.0 billion, while prices for Pamodzi, African Explosives and Bata increased by more than 100% to close the period at K950, K4,000 and K210 per share, respectively. On the losing side, Standard Chartered posted the largest decline of 58% to K117 per share. Overall, the LuSE All Share index posted 615 points to 3,918.7 (see Chart 5).

Chart 5: LUSE Indicators, May 2006 - May 2011



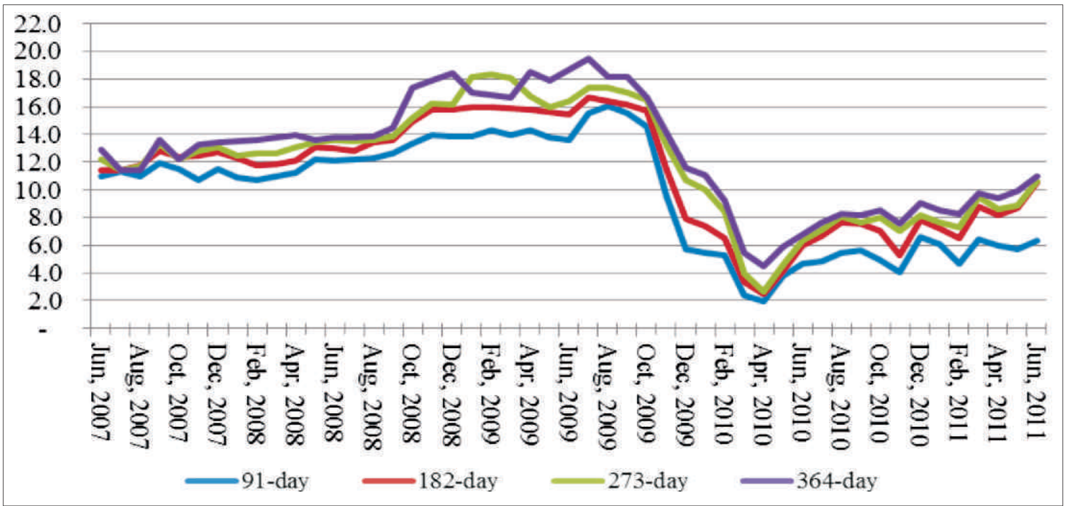
Source: LuSE

3.7 Interest Rates

3.7.1 Yield Rates on Government Securities

The composite weighted average Treasury bill yield rate rose by almost 200 basis points, from 8.2% in December 2010 to end the period at 10.1% in June 2011. The increase reflected a market correction on yield rates for the 182-, 273- and 364-day tenors with the largest gain of 267 basis points posted on the 182-day paper to 10.5%. The yield rate for the 273- and 364-day securities ended the period 250 and 198 basis points firmer at 10.6% and 11.0%, respectively. The increase in long-dated Treasury bill yields completely offset a decline of 28 basis points in the 91-day interest rate which ended the period at 6.3% (see Chart 6).

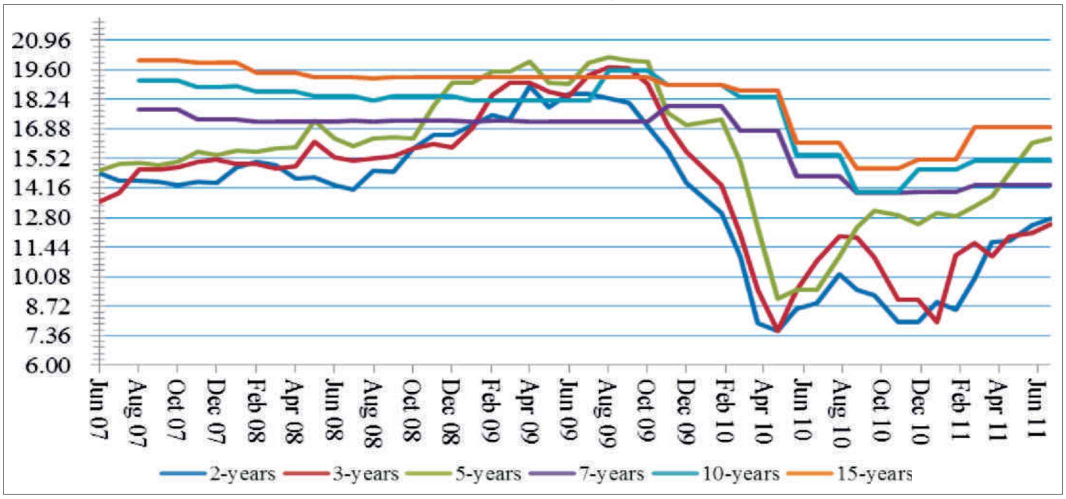
Chart 6: Treasury Bill Yield Rates (% p.a), June 2007 – June 2011



Source: Bank of Zambia

The composite weighted average bond yield rate rose by more than 400 basis points to 15.7%. The yield on the 2-year paper increased by 386 basis points to 12.8%, while yield rates for the 3- and 5-year tenors were higher by 448 and 345 basis points, ending the period at 12.5% and 16.5%, respectively. The yield rate for the long-dated 15-year bond also rose by more than 130 basis points to 16.8%. Yield rates increased modestly for the 7- and 10- year tenors, rising by 31 and 40 basis points to 14.3% and 15.1%, respectively (see Chart 7). The increase reflected a continuation of market correction and the less than favourable demand for Government bonds.

Chart 7: Government Bond Yield Rates (% p.a), June 2007 – June 2011

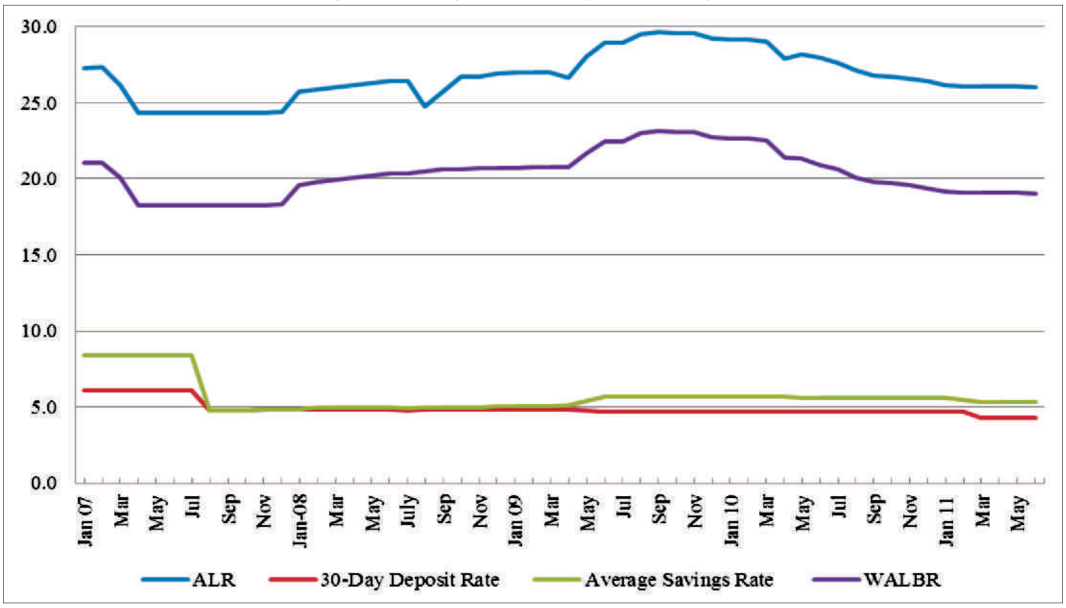


Source: Bank of Zambia
Note: The 7, 10 and 15 years bonds were introduced in August 2007

3. 7.2 Commercial Banks Interest Rates

During the first half of 2011, all reported commercial banks' nominal interest rates declined. The Weighted Average Lending Base Rate (WALBR) and the Average Lending Rate (ALR) decreased to 19.0% (19.4%)[6] and 26.0% (26.4%), respectively, in June 2011. Similarly, the Average Savings Rate (ASR) for amounts above K100,000.00 and the 30-day deposit rate for amounts exceeding K20 million declined to 4.3% (4.7%) and 5.3% (5.6%), respectively (see Chart 8).

Chart 8: Lending and Savings Rates, (% p.a), January 2007 - June 2011



Source: Bank of Zambia

Real interest rates declined during the review period due to the rise in annual inflation and the decline in nominal interest rates. The real WALBR and the real ALR declined to 10.0% [11.5%] and 17.0% [18.5%], respectively. Likewise, the real ASR for amounts above K100,000.00 and the real 30-day deposit rate for amounts above K20 million fell to negative 4.7% [negative 3.2%] and negative 3.7% [negative 2.3%], respectively.

3.7.3 Non-Bank Financial Institutions Lending Rates

The overall average annual interest rate in the non-bank financial institutions sector increased by 2.2 percentage points to 36.9% from an average rate of 34.7% in the second half of 2010 (see Table 5). While there was a 7 percentage point decline in the average interest rate

[6]Numbers in brackets are for end- December 2010

for the microfinance sub-sector to 85.1% from 92.1%, all other sub-sectors[7] recorded increases in their average annual interest rates.

Table 5: Average Annual Interest Rates (% p.a)

Description	Second Half 2010	First Half 2011
Microfinance Institutions	92.1	85.1
Leasing Finance Institutions	34.4	39.3
Building Societies	15.6	22.7
Development Bank of Zambia	14.6	16.6
National Savings and Credit Bank	17.0	20.8
Overall for the sector	34.7	36.9

Source: Bank of Zambia

4.0 Monetary Policy Objectives and Instruments for July - December 2011

In the second half of 2011, monetary policy will continue to be directed towards achieving an end-year inflation target of 7% that is consistent with the Government's Medium Term Expenditure Framework for 2011-2013. In this regard, the Bank of Zambia will continue to use indirect instruments in its operations to realise annual targets for both broad and reserve money of 9.3% and -5.6%, respectively.

4.1 Economic Outlook for the Second Half of 2011

Zambia's economic outlook and prospects for the second half of 2011 to 2012 remain positive. This is underpinned by expected strengthening in the world economy and robust domestic performance driven by the agricultural, mining, construction and tourism sectors. Surging trade volumes and high commodity prices on the international markets are expected to enhance the external sector's performance and contribute to relative exchange rate stability. However, there are threats to this outlook which include: higher oil prices resulting from political conflict in Middle East and North Africa; contagion from the domestic debt crisis in the Eurozone area; and rising world food prices due to poor agricultural harvest in some parts of the world.

Global economic performance is projected to remain strong through 2013 mainly led by emerging and developing economies. In Sub-Saharan Africa, growth is projected to be buoyed by favourable terms of trade for oil exporters, and continued large inflows of FDI from China and elsewhere[8].

With regard to the domestic economy, current indications point to continued strong economic growth. A bumper harvest has been recorded in the agricultural sector, which is expected to have dampening effects on overall inflation through the food component. In the mining sector, annual metal output is expected to be higher than the 2010 production levels on account of continued investment, recapitalization and commencement of production of other metals such as nickel, uranium and gold. As regards manufacturing, output is anticipated to continue its upward trend, particularly in the Food, Beverages and Tobacco sub-sector. Heightened production of cement and steel to support the country's construction activities will further boost the manufacturing sector. Further, growth in the construction sector is expected to be driven by real estate, mining construction and Government infrastructure development. The tourism sector is also expected to grow as the world economy continues to recover from the effects of the global financial and economic crisis.

The external sector is also anticipated to continue registering positive performance in the second half of 2011.The merchandise trade surplus is projected to rise, driven by higher export earnings in both metal and NTEs. Supply deficits on the international market, coupled with the projected strong global growth performance are expected to keep copper prices high. Similarly, NTEs are expected to rise, driven by increased exports earnings from copper wire, cane sugar, cement, lime and maize. These developments are expected to contribute to relative exchange rate stability.

[7]Other subsectors include Building Societies, National Savings and Credit Bank, Development Bank of Zambia and Leasing Companies
[8]World Bank publication of the Global Economic Prospects (GEP) June 2011

4.2 Inflation Projection: July – December 2011

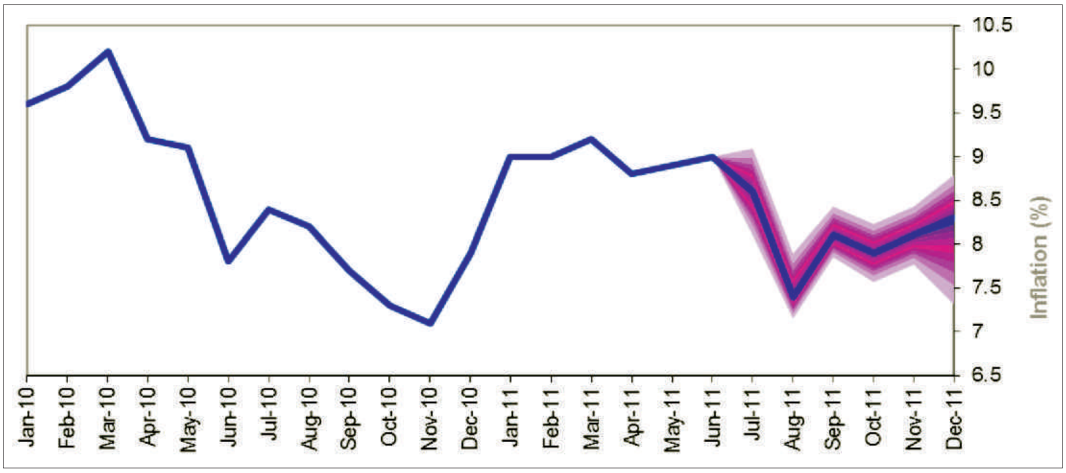
During the second half of 2011, inflation is anticipated to decline from the levels recorded in the first half of the year as a result of improved food supply. Consequently, consumer price index (CPI) inflation is projected to fall to 8.3% in December 2011 from 9.0% in June 2011(see Table 6 and Chart 9).

The primary source of inflationary pressures during the second half of 2011 is likely to emanate from the possible rise in fuel prices due to increases in the international price of oil.

However, the inflationary pressures are expected to be moderated by the fall in food prices especially maize during the second half of the year due to the recent bumper harvest. In addition, the improved seasonal supply of vegetables is expected to exert downward pressure on inflation.

In order to meet the end-year inflation target of 7%, the Bank of Zambia will continue to use indirect instruments in its operations to maintain both broad and reserve money in their programmed path.

Chart 9: Actual Inflation (%) and Projection: January 2010 - December 2011



Source: Bank of Zambia

Table 6: Inflation Forecast and Actual, January 2010 – December 2011

Month	Projection (a)	Actual (b)	Forecast Error (b-a)
June	8.2	7.8	-0.4
July	7.2	8.4	1.2
August	7.0	8.2	1.2
September	7.3	7.7	0.4
October	7.4	7.3	-0.1
November	7.8	7.1	-0.7
December	7.3	7.9	0.6
January 2011	8.2	9.0	0.8
February	8.6	9.0	0.4
March	9.4	9.2	-0.2
April	8.6	8.8	-0.2
May	8.5	8.9	0.4
June	8.4	9.0	0.6
July	8.6		
August	7.4		
September	8.1		
October	7.9		
November	8.1		
December	8.3		

Source: Bank of Zambia

Note: A positive number implies that actual inflation outturn was above the projection and the opposite is true.

5.0 Monetary Policy Principles for the Period July 2011- December 2013

In the period July 2011 – December 2013, monetary policy programming and operations will focus on realising Government's broad macroeconomic objectives that are consistent with the Vision 2030 that includes:

- End-year inflation targets of no more than 7.0% in 2011, 6.0% in 2012 and 5.0% in 2013;
- Realising real GDP growth rate of at least 6.8% in 2011, 7.4% in 2012 and 7.8% in 2013 to be underpinned by favourable growths in agricultural, mining, manufacturing, tourism and construction sectors;
- Limiting domestic financing no more than 1.3% of GDP in 2011, 1.2% of GDP in 2012 and 1.0% of GDP in 2013; and
- Accumulating international reserves amounting to no less than 3.4 months of prospective imports in 2011, 3.7 months in 2012 and 4.1 months in 2013.

In this period, the Bank of Zambia will maintain the use of market-based instruments of monetary policy, predominantly OMO, in managing liquidity.

Appendix 1: Selected Macroeconomic Indicators

Description/Years	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Monetary Aggregates (K'bn)							
Reserve money (end-period in K'billion)*	5,064.1	5,755.6	4,581.1	4,449.5	4,784.1	4,656.3	4761.9
Growth Rate(%)	9.1	13.7	-20.4	-2.9	7.5	-2.7	2.3
Broad money (in K'billion)	18,477.0	19,234.2	19,020.0	17,905.6	18,400.4	20,317.6	21063.80
Growth Rate (%)	1.6	4.1	-1.1	-5.9	2.8	10.4	3.7
Net Claims on Government (in K'billion)	6,801.3	5,022.1	5,038.2	5,433.8	4,717.7	5,319.9	4205.3
Prices (%)							
Inflation	7.9	9.0	9.0	9.2	8.8	8.9	9.0
Nominal Interest and yield rates (aver. %)							
Commercial Banks ' rates							
Commercial banks' weighted lending base rate	19.4	19.2	19.1	19.1	19.1	19.1	19.0
Average Savings rate (>K100,000)	4.7	4.7	4.7	4.7	4.7	4.7	4.3
Deposit rate (30 days, over K20 million)	5.6	5.6	5.4	5.3	5.3	5.3	5.3
Treasury bill yield rates (%)							
Weighted TB rate	7.4	7.8	6.8	9.5	8.2	8.6	9.8
91-day	6.3	6.7	4.2	5.8	6.1	5.8	6.4
182-day	7.6	7.5	6.2	8.1	8.4	8.6	11.0
273-day	8.0	8.0	6.7	9.2	8.8	8.6	10.5
364-day	9.0	8.8	7.5	9.8	9.4	9.8	11.1
Government bonds Yield Rates (%)							
Weighted Bond Yield Rate	11.3	11.2	13.1	12.0	13.7	16.2	15.7
24 months	8.9	8.6	10.0	11.7	11.7	12.4	12.8
3 year	8.0	11.1	11.6	11.0	12.0	12.1	12.5
5 year	13.0	12.9	13.3	13.8	14.9	16.2	16.5
7 year	14.0	14.0	14.3	14.3	14.3	14.3	14.3
10 year	15.0	15.0	15.4	15.4	15.4	15.4	15.4
15 year	15.5	15.5	17.0	17.0	17.0	16.8	16.8
Real Interest and Yield Rates (%)							
Commercial Banks' rates							
Commercial banks' weighted lending base rate	11.5	10.2	10.1	9.9	10.3	10.2	10.0
Average savings rate	-3.2	-4.3	-4.3	-4.5	-4.1	-4.2	-4.7
Deposit rate (30 days, over K20 million)	-2.3	-3.4	-3.6	-3.9	-3.5	-3.6	-3.7
Treasury bill yield rates (%)							
Weighted TB rate	-0.5	-1.2	-2.2	0.3	-0.6	-0.3	0.8
91-day	-1.6	-2.3	-4.8	-3.4	-2.7	-3.1	-2.6
182-day	-0.3	-1.5	-2.8	-1.1	-0.4	-0.3	2.0
273-day	0.1	-1.0	-2.3	0.0	0.0	-0.3	1.5
364-day	1.1	-0.2	-1.5	0.6	0.6	0.9	2.1
Government bonds Yield Rates (%)							
Weighted Bond rate	3.4	2.2	4.1	2.8	4.9	7.3	6.7
24 months	1.0	-0.4	1.0	2.5	2.9	3.5	3.8
3 year	0.1	2.1	2.6	1.8	3.2	3.2	3.5
5 year	5.1	3.9	4.3	4.6	6.1	7.3	7.5
7 year	6.1	5.0	5.3	5.1	5.5	5.4	5.3
10 year	7.1	6.0	6.4	6.2	6.6	6.5	6.4
15 year	7.6	6.5	8.0	7.8	8.2	7.9	7.8
Exchange rates (average K/US $)							
Commercial banks' interbank mid-rate	4,732.5	4,770.0	4,774.1	4,760.5	4,708.4	4,753.2	4801.3
Bank of Zambia mid rate**	4,735.7	4,766.3	4,769.5	4,755.4	4,699.5	4,749.9	4811.9
Real sector							
Mining output (tonnes)							
Copper	72,111.8	73,240.2	54,112.4	58,584.0	59,781.2	60,475.3	68790.86
Cobalt	663.5	753.8	745.9	875.4	728.5	801.9	655.2007
Metal Earnings (US $mn)							
Copper	612.4	597.6	510.9	596.5	582.9	557.3	579.4
Cobalt	21.8	27.9	31.5	27.1	20.0	21.4	26.2
Total	634.2	637.8	542.4	623.6	602.9	578.7	605.6
External sector (US $ mn)							
Trade Balance	222.5	271.6	131.2	187.4	162.5	129.2	185.9
Exports, c.i.f.	725.1	710.3	628.5	655.5	706.6	683.7	720.3
Imports, c.i.f.	-502.6	-438.7	-497.4	-468.0	-544.0	-554.5	-534.4

Source: Bank of Zambia Statistics Fortnightly

* Reserve money is narrowly defined.

**Based on BoZ end of period mid-exchange rate

Appendix II: The Extended Credit Facility (ECF) Arrangement

An International Monetary Fund (IMF) Mission visited Zambia from 3rd to 16th March 2011, to conduct the sixth and final review under the Extended Credit Facility (ECF) arrangement. The mission had fruitful discussions with the Zambian authorities and reached agreement on a set of macroeconomic policies and structural measures for the remainder of 2011. The IMF mission commended the authorities for implementing sound macroeconomic policies that have provided a strong foundation for government to pursue growth and employment creating policies. It also commended the authorities for the progress made in implementing structural reforms.

Consequently, the Executive Board of the IMF completed the sixth and final review at a meeting held on 20th June 2011. The successful completion of the review enabled immediate disbursement of SDR 18.4 million (an equivalent of US $29.2 million) bringing the total disbursement under the ECF arrangement to SDR 220.095 million (US $350.4 million).

Total disbursed Poverty Reduction Budget Support (PRBS) in the first half of 2011 amounted to US $42.4 million compared with the projection of US $56.0 million. In addition, a total of US $456.1 million in mining taxes were received directly into the Bank of Zambia. Further, Bank of Zambia foreign exchange purchases from the market amounted to US $224.0 million during the period under review. The above receipts were against payments to PTA Bank (US $381.2 million) for oil procurement and debt service payments to various creditors (US $12.9 million).

Preliminary data indicate that the Net Domestic Assets (NDA), the Net Domestic Financing (NDF) of Government and the Unencumbered International Reserves (UIR) performance criteria were all observed and the structural benchmarks were on track. As at end-June 2011, the average NDA was K1,069.2 billion below the end-June programme ceiling of K98.1billion while the NDF was K2,150.0 billion below the end-June 2011 programme ceiling of K9,875.9billion. The UIR were US $353.4 million above the end-June floor of US $2,013.2 million.

The broad macroeconomic objectives for 2011 include: (i) attaining real GDP growth of at least 6.8%, a revision from 6.4%; (ii) achieving end-year inflation of no more than 7.0%; (iii) limiting domestic financing to 1.3% of GDP; and (iv) increasing gross international reserves to not less than 3.4 months of prospective imports (see Appendix II, Table 1).

The ECF arrangement, which was approved in June 2008, came to end in June 2011. Government is currently studying options of either continuing with a new ECF arrangement for further concessional financing or migration to other arrangements such as the Policy Support Instrument (PSI), a non-financial arrangement that has an important signalling role to the market. In case the Government meets the criteria and wishes to proceed with this arrangement, the PSI could be complemented by financial support under the Standby Credit Facility (SCF) in case the country faces a balance of payments support need. Under the ECF arrangement quantitative targets are determined by Zambian authorities in consultation with the IMF. Following the expiry of the programme, the quantitative targets will be determined by the Zambian authorities.

Table AII.1: Macroeconomic Outturn and Targets in 2010, and Targets for 2011

Description	End-December 2010 Targets	End-December 2010 Outturn	End-December 2011 Targets
Real GDP growth rate (%)	6.6	7.6	6.8
CPI Inflation, end period (%)	8.0	7.9	7.0
CPI Inflation, annual average (%)	8.6	8.5	9.0
Gross Official Reserves (in months of imports)	3.4	4.7	3.9
Broad Money growth (%)	23.5	29.9	9.3
Budget deficit, excluding grants (% of GDP)	6.1	4.9	4.7
Domestic financing of the Budget (% of GDP)	2.6	2.8	1.3

Source: Bank of Zambia, IMF Staff Report for 2011 Sixth Review Under the Extended Credit Facility, June 2011

Appendix III: Statistical Tables and Charts

Table AIII.1: Trade Data in US $ million (c.i.f), July 2009 – June 2011

	Jul-Dec 2009	Jan-Jun 2010	Jul-Dec 2010	Jan-Jun 2011*	% Change
Trade Balance	614.2	814.3	1,284.2	1,108.8	-13.7
Exports, c.i.f	2,737.7	3,333.3	3,998.3	4,238.8	6.0
Metals	2,141.3	2,733.0	3,338.7	3,588.8	7.5
Copper	2,014.9	2,578.7	3,189.2	3,429.5	7.5
Cobalt	126.4	154.3	149.5	159.3	6.5
Total NTEs	596.3	600.4	659.6	650.0	-1.5
Exporter Audit Adjustor	-13.2	-13.2	-13.2	-13.2	0.0
Copper Wire	73.2	84.6	85.6	87.3	2.0
Cane Sugar	71.5	67.2	80.9	68.5	-15.3
Burley Tobacco	59.9	48.2	69.3	26.8	-61.4
Cotton Lint	30.2	17.9	31.5	0.7	-97.9
Electrical Cables	20.5	21.8	19.9	19.8	-0.8
Fresh Flowers	12.0	11.1	11.0	11.1	1.2
Cotton Yarn	0.0	0.0	0.0	0.0	0.0
Fresh Fruits & Vegetables	15.5	4.7	6.4	3.9	-39.5
Gemstones	25.6	29.0	20.8	16.1	-22.7
Gasoil/Petroleum Oils	17.2	18.1	9.5	28.1	196.0
Electricity	6.2	4.8	3.2	14.6	24.9
Other	277.8	306.0	334.5	386.4	18.5
Of which Maize & Maize Seed	18.5	5.2	28.1	51.0	63.8
Wheat & Insulin	11.9	15.4	16.7	13.2	-21.4
Cement & Lime	23.6	0.4	15.2	3.0	-80.4
Imports c.i.f.	-2,123.5	-2,519.0	-2,714.1	-3,130.0	15.3

Source: Bank of Zambia
*Figures for Jan - Jun 2011 are preliminary.

Table AIII.2: Metal Production, Export Volumes, Values and Prices; January 2009 – June 2011

	Copper					Cobalt				
Period	Export Volume Tonnes	Production Tonnes	Value US $'000	Price US$/ Tonne	Price US$/ pound	Export Volume Tonnes	Production Tonnes	Value US $ '000	Price US$/Tonne	Price US$/ pound
Quarter 1, 2009	151,754	170,948	497,502	3,278.35	1.49	1,071	1,081	12,559	11,728.82	5.32
Quarter 2, 2009	160,179	168,424	666,838	4,163.07	1.89	878	887	24,902	28,372.58	12.87
Jan- Jun 2009	311,933	339,372	1,164,340	3,732.66	1.69	1,949	1,968	37,461	19,225.67	8.72
Quarter 3, 2009	184,706	178,140	947,828	5,131.55	2.33	2,037	2,015	67,427	33,104.50	15.02
Quarter 4, 2009	177,458	180,188	1,067,118	6,013.37	2.73	1,882	1,896	58,973	31,328.05	14.21
Jul-Dec 2009	362,164	358,328	2,014,946	5,563.63	2.52	3,919	3,912	126,400	32,251.26	14.63
Quarter 1, 2010	191,024	188,008	1,274,659	6,672.78	3.03	1,943	1,961	77,951	40,108.10	18.19
Quarter 2, 2010	181,367	175,950	1,192,559	6,575.40	2.98	2,074	2,029	79,108	38,133.40	17.30
Jan-Jun 2010	372,390	363,958	2,467,217	6,625.35	3.01	4,018	3,990	157,059	39,088.56	17.73
Quarter 3, 2010	222,035	228,370	1,534,916	6,912.96	3.14	2,245	2,367	75,297	33,467.08	15.18
Quarter 4, 2010	224,129	203,779	1,654,274	7,380.92	3.35	2,308	2,265	74,238	32,165.02	14.59
Jul-Dec 2010	446,163	432,148	3,189,190	7,148.04	3.24	4,558	4,632	149,536	32,807.75	14.88
Quarter 1, 2011	203,278	206,469	1,749,604	8,606.97	3.90	2,395	2,375	86,463	36,093.93	16.37
Quarter 2, 2011*	202,764	208,515	1,679,906	8,285.03	3.76	1,966	1,978	72,805	37,039.41	16.80
Jan-Jun 2011*	406,042	414,984	3,429,510	8,446.20	3.83	4,361	4,353	159,267	36,520.07	16.57

Source: Bank of Zambia Statistics Fortnightly
*Figures are preliminary

Table AIII.3: Imports by Commodity Groups in US $ millions (c.i.f.); July 2009 – June 2011

Description	July -Dec 2009	Jan-Jun 2010	Jul-Dec 2010	Jan-Jun 2011*	% Change Jan-Jun 2011/ Jul-Dec 2010
Food Items	126	106	158	172	9.1
Petroleum Products	247	341	220	142	-35.3
Fertilizers	113	91	85	141	66.6
Chemicals	234	291	304	355	16.8
Plastic and Rubber Products	110	103	125	145	15.9
Paper and Paper Products	61	40	40	48	19.7
Iron and Steel	142	135	156	184	17.9
Industrial Boilers & Equipment	328	424	375	552	47.1
Electrical Machinery & Equipment	109	97	122	185	52.4
Vehicles	143	155	181	282	55.5
Other Imports	510	735	948	923	-2.7
Total Imports	2,123	2,519	2,714	3,130	15.3

Source: Central Statistical Office, The Monthly
*Figures are Preliminary

Table AIII.4: Sources of Reserve Money Growth

	Jul - Dec 2010		Jul - Dec 2011	
	Total (K'bn)	Contribution to Reserve Money Growth (%)	Total (K'bn)	Contribution to Reserve Money Growth (%)
1/ Net Foreign Assets (a+b+c+d)	792.3	15.6	46,208.5	912.5
a) Net Purchases from Govt	-539.6		45,069.8	
b) Net Purchases from non-Government	1,236.7		1,047.2	
c) Bank of Zambia own use of forex	0.1		-3.1	
d) Change in stat. reserve deposits forex balances	95.2		94.6	
2/ Net Domestic Credit (a+b)	249.6	4.9	-46,623.0	-920.5
a) Autonomous influences	19,325.6		-38,587.4	
Maturing Open Market Operations	18,218.2		8,958.6	
Direct Govt Transactions	1,163.7		-45,620.4	
TBs and Bonds Transactions	-306.5		-1,830.3	
Claims on non-banks (Net)	250.3		-95.2	
b) Discretionary influences	-19,076.0		-7,919.4	
Open Market Operations	-19,061.0		-7,902.1	
i. Short term loans	0.0		0.0	
ii. Repos/Outright TB sales	-1,681.0		-1,585.3	
iii. Term Deposits Taken	-17,380.1		-6,316.8	
Treasury bill Rediscounts	0.0		0.0	
Other claims (Floats, Overdrafts)	-15.0		-133.5	
Change in Reserve Money	1,041.9	20.6	-414.5	-8.0

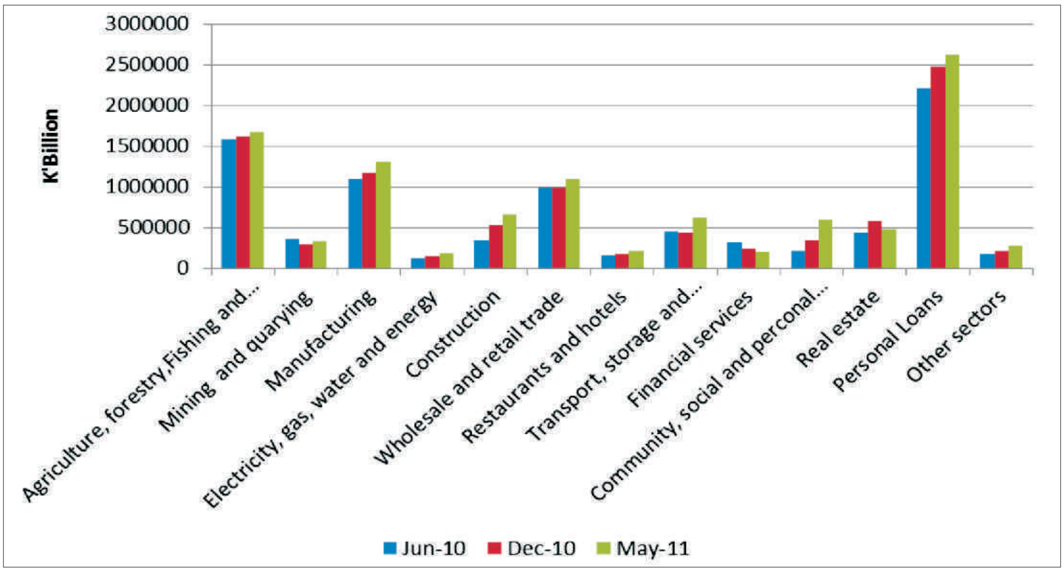
Source: Bank of Zambia

Table AIII.5a: Sectoral Distribution of Loans & Advances, June 2009 - June 2011 (%)

Sector	Jun-09	Dec-09	Jun-10	Dec-10	June 11*
Agriculture, forestry, fishing and hunting	18.4	19.3	18.7	17.6	16.3
Mining & Quarrying	4.9	4.2	4.2	3.2	3.2
Manufacturing	11.0	12.3	13.0	12.7	13.7
Electricity, Gas, Water & Energy	2.3	1.7	1.4	1.6	1.8
Construction	2.9	3.2	4.1	5.8	6.4
Wholesale & Retail Trade	9.1	10.2	11.7	10.8	10.7
Restaurants & Hotels	1.9	1.5	1.9	1.9	2.1
Transport, Storage & Communications	7.9	6.3	5.4	4.7	6.1
Financial Services	8.1	5.2	3.8	2.6	1.9
Community, Social and Personal Services	2.2	3.5	2.5	3.7	5.8
Real Estate	7.0	8.4	5.2	6.2	4.6
Personal Loans	21.6	22.1	26.2	26.8	25.6
Others	2.9	2.1	2.0	2.3	2.7

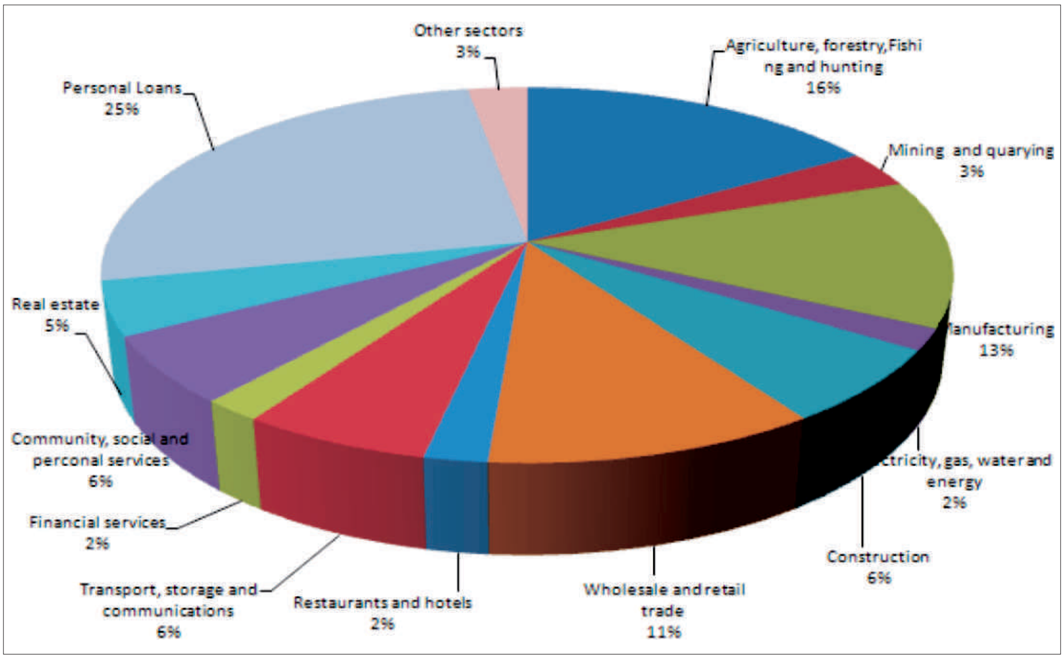
Source: Bank of Zambia
*Preliminary

Chart AIII.1: Sectoral Distribution of Loans & Advances, June 2010 – June 2011



Source: Bank of Zambia

Chart AIII.2: Sectoral Distribution of Loans and Advances (Monthly Average), January – June 2011



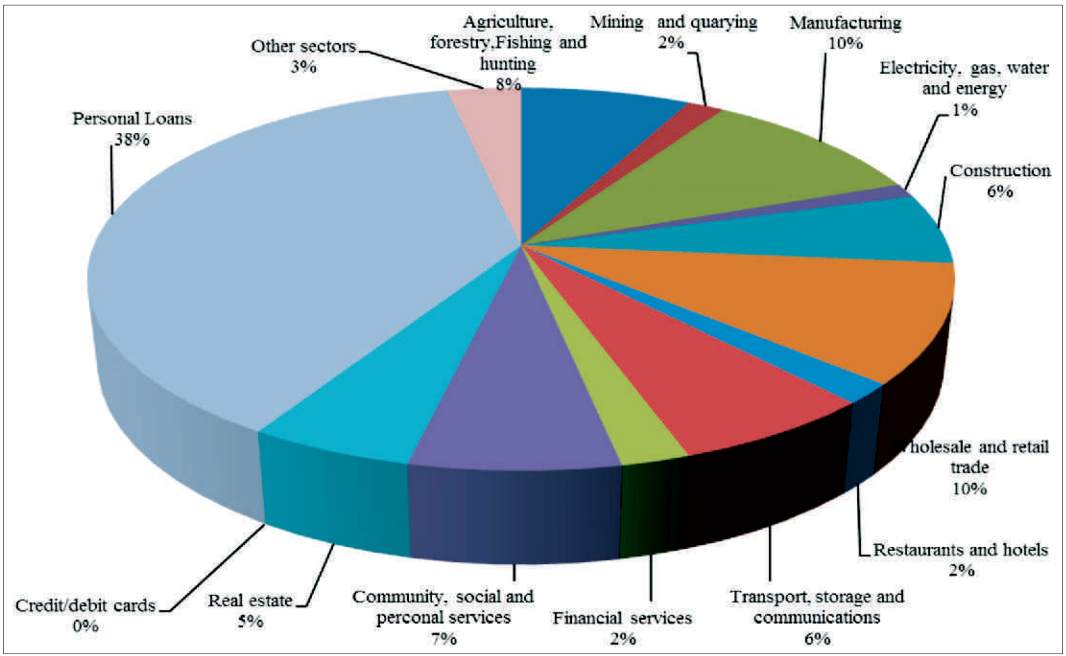
Source: Bank of Zambia

Table AIII.5b: Sectoral Distribution of Loans & Advances (Excluding Foreign Currency Loans), June 2009 - June 2011 (%)

Sector	Jun-09	Dec-09	Jun-10	Dec-10	Jun 11*
Agriculture, forestry, fishing and hunting	11.8	11.5	9.8	12.1	7.5
Mining & Quarrying	1.8	0.8	1.3	1.6	1.6
Manufacturing	11.0	9.8	12.0	11.7	10.2
Electricity, Gas, Water & Energy	0.8	1.4	1.1	1.3	1.2
Construction	3.0	2.6	3.8	6.2	6.0
Wholesale & Retail Trade	6.8	10.9	9.5	10.1	10.0
Restaurants & Hotels	1.6	1.0	1.1	1.3	1.7
Transport, Storage & Communications	8.6	7.1	5.5	4.6	6.5
Financial Services	6.5	3.5	3.5	2.0	2.2
Community, Social and Personal Services	1.8	4.7	3.1	2.7	6.7
Real Estate	8.9	9.8	5.4	3.9	5.2
Personal Loans	33.8	34.1	41.1	40.6	38.0
Others	3.5	2.8	2.7	1.9	3.3

Source: Bank of Zambia
*Preliminary

Chart AIII.3: Sectoral Distribution of Loans and Advances (Monthly Average Excluding Foreign Currency Loans), January - June 2011



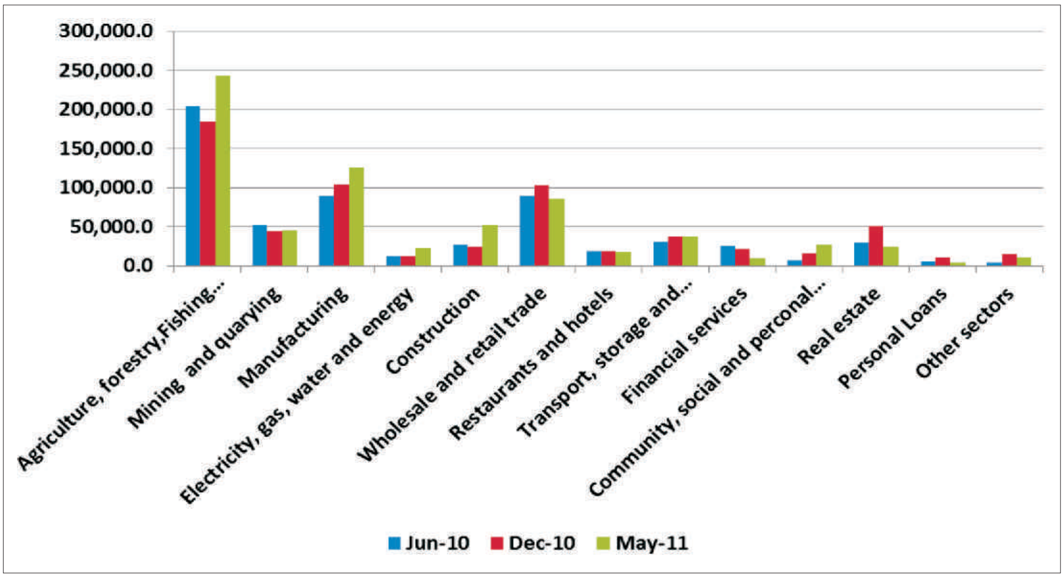
Source: Bank of Zambia

Table AIII.5c: Sectoral Distribution of Foreign Exchange Loans & Advances, June 2009 - June 2011 (%)

Sector	Jun-09	Dec-09	Jun-10	Dec-10	Jun 11*
Agriculture, forestry, fishing and hunting	29.5	33.7	34.1	27.9	34.5
Mining & Quarrying	10.1	9.9	8.8	6.1	6.4
Manufacturing	11.0	16.2	14.9	17.4	17.8
Electricity, Gas, Water & Energy	4.7	1.8	1.9	2.0	3.2
Construction	2.6	4.4	4.5	3.5	7.4
Wholesale & Retail Trade	12.9	12.0	15.1	11.5	12.1
Restaurants & Hotels	2.5	2.4	3.2	3.2	2.5
Transport, Storage & Communications	6.7	5.1	5.2	5.8	5.4
Financial Services	10.7	8.2	4.3	3.7	1.4
Community, Social and Personal Services	2.7	2.8	1.2	4.9	3.9
Real Estate	4.0	3.9	5.0	8.3	3.4
Personal Loans	0.8	0.5	1.0	4.1	0.5
Others	2.6	1.6	1.8	5.7	1.5

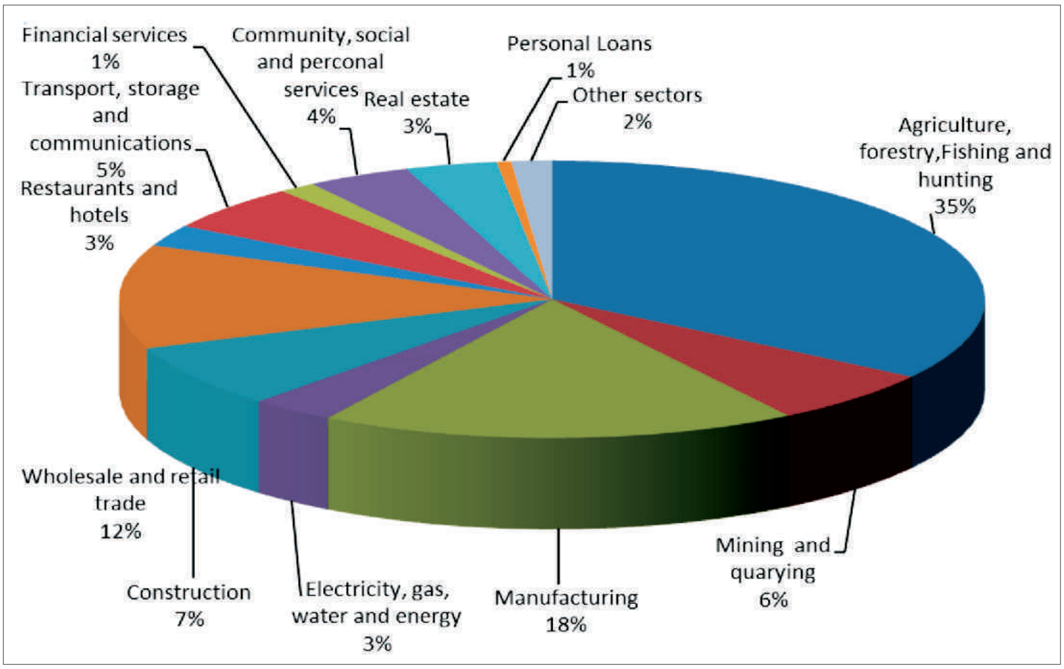
Source: Bank of Zambia
*Preliminary

Chart AIII.4: Sectoral Distribution of Foreign Currency Loans and Advances, June 2010 – May 2011



Source: Bank of Zambia

Chart AIII.5: Sectoral Distribution of Forex Loans and Advances (Monthly Average), January - June 2011



Source: Bank of Zambia

Table AIII.6: Central Government Fiscal Operations, First Half 2011 (in K' billion)

	2011	Quarter 1	Quarter 2	First Half 2010		
	Approved	Prelim.	Prelim.	Target	Prelim.	% Change
Total Revenue and Grants	17,356.8	4,087.3	4,576.4	8,500.6	8,663.7	1.9
Tax Revenue	15,230.1	3,545.6	4,534.3	7,444.5	8,079.9	8.5
Non-Tax Revenue	539.0	147.5	42.1	229.7	189.6	-17.5
Grants	1,587.7	394.2	-	826.4	394.2	-52.3
Total Expenditure	20,235.0	4,391.1	5,730.9	10,036.5	10,122.0	0.9
Current Expenditure	15,052.0	3,856.1	4,873.6	7,336.0	8,729.7	19.0
Personal Emoluments	7,406.2	1,695.6	1,842.2	3,525.9	3,537.8	0.3
PSRP	15.0	5.0	5.0	7.2	10.0	39.9
Use of Goods and Services	3,409.6	1,150.7	1,150.9	1,682.4	2,301.6	36.8
Interest	1,250.2	329.9	336.2	605.4	666.1	10.0
Grants and Other Payments	1,803.6	534.3	891.8	857.5	1,426.1	66.3
Social Benefits	443.1	41.4	382.6	271.4	424.0	56.2
Other Expenses	328.9	7.2	207.9	202.0	215.1	6.5
Liabilities	395.4	92.0	57.0	184.2	149.0	-19.1
Assets	5,183.0	535.0	857.3	2,700.5	1,392.3	-48.4
Non-Financial Assets	5,085.4	499.3	837.7	2,646.6	1,337.0	-49.5
Financial Assets	97.6	35.7	19.6	53.9	55.3	2.6
Statistical discrepancy & Change in balances	112.8	30.5	1,066.7	-177.0	1,097.2	-719.9
Change in Balances	-	337.0	243.8	172.9	580.8	-235.9
Fiscal Balance	-2,765.4	-273.3	-87.8	-1,712.9	-361.1	78.9
Financing	2,765.4	273.3	87.8	1,712.9	361.1	-78.9
Domestic	1,219.8	284.0	87.8	840.3	371.8	-55.8
Foreign	1,545.6	-10.7	-	872.6	-10.7	-101.2

Source: Ministry of Finance and National Planning
Key: - indicates zero or not available

Table AIII.7: Indicators of Bidding Behaviour in the Government Securities Market[1]

	Average Amts Offered (K blns)		Average Bid Amts (K blns)		Average Excess Demand (K blns)[2]		Average Subscription Rate (%)[3]	
	Jul – Dec, 10	Jan – Jun, 11	Jul – Dec, 10	Jan – Jun, 11	Jul – Dec, 10	Jan – Jun, 11	Jul – Dec, 10	Jan – Jun, 11
91-day bills	22.7	38.3	36.2	52.5	13.5	14.3	159.3	137.3
182-day bills	22.7	43.8	31.3	52.1	8.6	8.3	138.0	118.8
273-day bills	22.7	48.5	38.3	53.1	15.7	4.6	169.0	109.6
364-day bills	48.1	88.7	84.5	107.7	36.5	19.1	175.9	121.5
TOTAL	116.2	219.2	190.4	265.4	74.2	46.2	163.9	121.1
2-year bond	30.8	71.7	53.4	52.4	22.5	-19.1	173.0	73.3
3-year bond	37.5	88.3	67.8	57.3	30.3	-31.0	180.8	64.9
5-year bond	45.8	103.3	42.5	109.4	-3.4	6.0	92.6	105.8
7-year bond	7.5	6.7	6.4	6.3	-1.1	-0.4	85.6	94.1
10-year bond	7.5	6.7	0.9	4.6	-6.6	-2.1	12.5	69.1
15-year bond	5.8	6.7	0.6	1.8	-5.2	-4.5	10.6	26.5
TOTAL	135.0	283.3	175.8	231.9	36.6	-51.4	127.1	81.8

Source: Bank of Zambia
1 Treasury bills are offered weekly while Government bonds are offered monthly
2 Average Excess Demand = Average Amounts Bid less Average Amounts Offered, (-ve = shortfall, +ve = excess)
3 Average Subscription Rate = Average bid amounts as percentage of average amount offered

Appendix IV: Composition of the Monetary Policy Advisory Committee (MPAC)[9]

1.	Dr Caleb M. Fundanga	Governor
2.	Dr Austin Mwape	Deputy Governor - Operations
3.	Dr Tukiya Kankasa-Mabula	Deputy Governor - Administration
4.	Dr Dennis Chiwele	Member of the Bank of Zambia Board of Directors
5.	Mr Likolo Ndalamei	Secretary to the Treasury – Ministry of Finance and National Planning
6.	Prof. Manenga Ndulo	University of Zambia – Economics Department
7.	Prof. John Lungu	Copperbelt University – School of Business
8.	Mr Peter Mukuka	Member
9.	Ms Justina Wake	Member
10.	Mrs Beatrice Nkanza	Member
11.	Dr Anthony Mwanaumo	Member

[9]The MPAC comprises 11 members: 6 institutional members, one member of the Bank of Zambia Board of Directors and 4 independent individual members